WINE INDUSTRY NETWORK ADVISOR

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CROP INSURANCE

The deadline for insuring this year's crop is approaching!

"Would you pay a few hundred bucks an acre for a spray that would guarantee you seventy-five percent of your grape production every year?"

So asks Michael Applegate of St. Helena Insurance Associates, in Napa Valley, California. Unfortunately there is no such spray, but he reminds us that good crop insurance can do the same thing, and that the deadline for purchasing insurance for next year's crop January 31, 2012 is fast approaching. Crop insurance is potentially the best investment a grower can make.

Crop insurance offers protection from losses caused by natural events, such as frost, drought, wind, rain, hail pretty much anything Mother Nature throws our way that can damage grapes on the vine. In addition, damage to irrigation systems can be covered if caused by acts of nature.

Grape growers, like all farmers, face many perils each year, and these perils vary depending on location and climate. "In Napa Valley, for example, there are lots of different micro-climates," said Chris Maloney, owner of Chris Maloney Crop Insurance, LLC, in Petaluma, California. "There are different vineyards at different elevations; they all have different risk exposures."

Maloney pointed out that there were losses from adverse weather conditions in three of the past four years in her area: In 2008 growers experienced a late April frost, in 2010 there was a late season heat spike, and in 2011 there was rain at bloom in early May, then rain in October followed by high humidity and warm temperatures coupled with little or no wind causing an outbreak of botrytis.

All of these were natural conditions covered by most crop insurance policies. Not covered are things like falling market prices, phylloxera, or fire (unless caused by lightning). In addition, the vines themselves are not covered, only the grapes (though some insurance firms do offer insurance for vines at extra cost). Maloney's firm, whose focus is crop insurance, said 85 percent is the highest insurance coverage level available, with prices being set each year by the USDA risk management district.

Coop Gabelman of George Peterson Insurance Agency, pointed out that "Certain pests can be covered as well as long as the grower has taken steps to eradicate them using accepted farming

INSURANCE

THE LAST FEW YEARS HAVE BEEN INCREDIBLY TOUGH ON OUR GRAPE GROWERS

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>
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> CHRIS MALONEY CROP INSURANCE, LLC

practices for their area, such as spraying, disking, or pruning."

Insurers set coverage by factoring average yields and costs from the last four to 10 years. Pam Chanter, vice president of VANTREO Insurance Brokerage in Santa Rosa, California, said crops are eligible for insurance at the beginning of the fourth leaf year, and gave this as a model of how coverage is calculated, using a 25-acre merlot vineyard as an example:

INSURANCE POLICY:

- Price per ton: $2,525
- Actual production history: 3.8 tons/acre
- Maximum contract price: $5,050
- Insured's contract price: $4,890
- 75 percent coverage level
- Annual insurance premium: $7,883

CLAIM CALCULATION:

- 30 tons harvested
- 71.3 tons guaranteed
- 71.3 tons - 30 tons harvested=41.3 ton loss
- 41.3 tons x $4,890 price = $201,957 claim paid

This illustrates the value of a good crop insurance policy. Prices, of course, vary by location, history, and variety of grapes. Growers may choose the level of guaranteed coverage from 50 percent to 85 percent in five percent increments and the insurance is "named peril" coverage, meaning that what is covered must be spelled out in each individual agreement.

According to Michael Applegate, for the basic 55 percent catastrophic coverage (CAT) on grapes, the premium is paid in full by the USDA through the Federal Crop Insurance Program with growers paying only a $300 application fee per variety. The CAT coverage insures 55 percent of the price of the grapes established by the risk management agency on crop losses in excess of 50 percent. In addition, said Applegate, for higher levels of coverage a significant portion of the premium is paid by government subsidies.

In an article in allbusiness.com (http://www.allbusiness.com/north-america/united-states/1019859-1.html) writer Timothy Martinson pointed out that there are also other programs available, including "AGR-Lite. The USDA risk management agency's Web site (http://www.rma.usda.gov/policies/agr-lite.html) has this to say about this new pilot program:

AGR-Lite is a whole-farm revenue protection plan of insurance which protects against low revenue due to unavoidable natural disasters and market fluctuations. Most farm-raised crops, animals, and animal products are eligible. AGR-Lite can stand alone or be used in conjunction with other federal crop insurance plans except Adjusted Gross Revenue (AGR).

AGR-Lite is available in: Alabama, Alaska (selected counties), Arizona, Colorado, Connecticut, Delaware, Florida, Georgia, Hawaii, Idaho, Illinois, Kansas, Maine, Maryland, Massachusetts, Minnesota, Montana, Nevada, New Hampshire, New Jersey, New Mexico, New York (selected counties), North Carolina, Oregon, Pennsylvania (except Philadelphia County), Rhode Island, South Carolina, Tennessee, Utah, Vermont, Virginia, Washington, West Virginia, Wisconsin, and Wyoming.

Here's something to consider as well: If a natural disaster is declared in your area, the federal government can require that you have basic CAT insurance before they offer any other financial assistance, according to Michael Applegate.

According to cropinsuranceinamerica.org, crop insurance currently covers 263 million acres of farmland (of all types) across America. Insurance payments to farmers for crop losses in 2010 exceeded six billion dollars. Because of the many unique risks confronted by vintners, each vineyard requires customized insurance programs and solutions. Crop insurance can give growers the confidence to be innovative, creative, and stay competitive. It can be used as collateral for loans. For grapegrowers, it can end sleepless nights and worry. For prudent growers crop insurance has become part of the cost of doing business, and for many, it is why they are still in business today.

If you haven't yet insured your 2012 grape crop, get in touch with your insurance agency soon. The deadline, January 31, 2012, is just around the corner.

Click here to see a complete listing of insurance providers available by the searching WineIndustryNetwork.com

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